5/11/12 NOTICE OF APPLICATION CHANGES

2012 RENTAL HOUSING DEVELOPMENT HOME APPLICATION CHANGES

NOTICE AND RATIONALE

Michael Kendhammer, CPA brought to my attention the unintended consequences of two financial requirements in the new 2012 HOME RHD Application and 2012 Program Guide which specify that the operating expense escalator must be 3.5% (with income escalator at 2%) and that DCR must be 1.05 for 20 years with the HOME loan payment included.

We agreed that this would be reasonable if a) developers were allowed to charge the full allowed 50% and 60% CMI rents, and b)if they could in fact achieve the 2% income annual increase. Given however that these two conditions were not being achieved, requiring the 3.5% operating expense escalator was having the effect of declining NOI for projects that were essentially financially viable but not under the three conditions of not being able to charge the entire allowable rents, inability to achieve 2% annual income increase AND the 3.5% operating escalator. While the desire to fund only financially viable projects is appropriate, we have no desire to over-compensate to the point of prohibiting good projects from applying because they can't pass threshold. Because of this, **the operating expense escalator for the 2012 application will be reduced from 3.5% to 3.0%.**

The other issue was maintaining the 1.05 DCR for the 20-year period given that the DCR will go up after refinance of (LIHTC) debt at years 16 or 17. The question arose of whether projects for whom the DCR dropped below 1.05 for a couple of years prior to this refinance could be still considered viable and pass threshold to apply for RHD funds. At the risk of not being as transparent and black/white as I'd like, I am willing to say that **we will evaluate projects on a case by case basis that go below 1.05 DCR in years >12, if the applicant can make a case as to why the project will return to a >1.05 DCR within 5 years.**